CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 16, 2003

H.R. 1588

National Defense Authorization Act for Fiscal Year 2004

As ordered reported by the House Committee on Armed Services
on May 14, 2003

SUMMARY

H.R. 1588 would authorize appropriations totaling $398 billion for fiscal year 2004 for the military functions of the Department of Defense (DoD) and the Department of Energy (DOE). It also would authorize an additional $0.7 billion over the 2005-2008 period for the Maritime Administration. In addition, the bill would prescribe personnel strengths for each active-duty and selected reserve component of the U.S. armed forces. CBO estimates that appropriation of the authorized amounts would result in additional outlays of $394.1 billion over the 2004-2008 period.

The bill also contains provisions that would both increase and decrease costs of discretionary defense programs over the 2005-2008 period. CBO estimates that those provisions combined would reduce the requirements for discretionary spending by about $850 million over those four years, assuming that net appropriations are reduced by the estimated amounts.

The bill contains provisions that would increase direct spending, primarily from increasing the amount that DoD can spend to finance special authorities for the construction and renovation of military family housing. We estimate that the increase in direct spending resulting from provisions of H.R. 1588 would total $420 million over the 2004-2008 period and $466 million over the 2004-2013 period. Those totals include estimated net receipts from asset sales of $20 million over the 2004-2005 period.

H.R. 1588 contains an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA). However, CBO estimates that any costs to state, local, or tribal governments from the mandate would be insignificant and would not, therefore, exceed the threshold established in UMRA for such mandates ($59 million in 2003, adjusted for inflation). The bill would impose no private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1588 is shown in Table 1. Most of the costs of this legislation fall within budget function 050 (national defense).

TABLE 1. BUDGETARY IMPACT OF H.R. 1588, THE NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2004

	By Fiscal Year, in Millions of Dollars					
	2003	2004	2005	2006	2007	2008
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law for Defense Programs						
Budget Authority [a]	453,197	0	0	0	0	0
Estimated Outlays	419,249	150,324	45,599	13,941	5,593	2,702
Proposed Changes						
Estimated Authorization Levels	0	398,081	5	411	161	166
Estimated Outlays	0	267,452	89,160	26,747	7,743	3,031
Spending Under H.R. 1588 for Defense Programs						
Estimated Authorization Levels[a]	453,197	398,081	5	411	161	166
Estimated Outlays	419,249	417,776	134,759	40,688	13,336	5,733
CHANGES IN DIRECT SPENDING (EXCLUDING ASSET SALES)						
Estimated Budget Authority	0	171	296	6	7	2
Estimated Outlays	0	23	99	169	104	45
ASSET SALES[b]						
Estimated Budget Authority	0	-15	-5	0	0	0
Estimated Outlays	0	-15	-5	0	0	0

NOTE: For 2004-2008, the figures under "Proposed Changes" include amounts specifically authorized by the bill plus an inferred authorization in 2004 for the Coast Guard Reserve based on authorized endstrength levels. The bill also implicitly authorizes programs in 2005-2008; those authorizations are not included above (but are shown in Table 3) because funding for those programs would be covered by specific authorizations in future years.

a. The 2003 level is the amount appropriated for programs authorized by the bill (including $62,808 million in appropriations in Public Law 108-11, the Emergency Wartime Supplemental Appropriations Act, 2003).

b. Asset sale receipts are a credit against direct spending.

BASIS OF ESTIMATE

Spending Subject to Appropriation

The bill would specifically authorize appropriations totaling $398.0 billion in 2004 (see Table 2).[1] Most of those costs would fall within budget function 050 (national defense). Other costs—some occurring beyond 2004—would fall within other budget functions; they include: $65 million in 2004 for the Armed Forces Retirement Home (function 600—income security); $17 million in 2004 for the Naval Petroleum Reserves (function 270—energy); $5 million annually from 2004 to 2008 for the Sikes Act (both function 300—natural resources and environment, and function 050—national defense); and a host of authorizations for the Maritime Administration (both function 400—transportation, and function 050—national defense). Authorizations for the Maritime Administration are discussed later in the estimate, just before the section on direct spending.

The estimate assumes that the amounts authorized for 2004 will be appropriated before the start of fiscal year 2004. Outlays are estimated based on historical spending patterns.

For 2003, the bill authorizes the appropriation of the $62.8 billion in supplemental funding for DoD and DOE as provided in Public Law 108-11, the Emergency Wartime Supplemental Appropriations Act, 2003, plus other supplemental appropriations that may be necessary before the end of the year. Because the wartime supplemental funding has been enacted into law, Table 1 includes those appropriations in the figures for "Spending Under Current Law." Since DoD has recently stated that under current circumstances it does not anticipate needing further supplemental funding for 2003, this estimate assumes no such appropriations will be enacted for the remainder of this fiscal year.

The bill is silent regarding additional appropriations for 2004 that DoD indicates will be required to fund ongoing operations relating to Iraq and the global war on terrorism. CBO expects that those amounts, which would be additions to appropriations authorized by the bill, will likely be provided in supplemental appropriations enacted during 2004.

1. After adding the $120 million estimated authorization for the Coast Guard Reserve, the bill would authorize appropriations of slightly less than $398.1 billion for 2004.

TABLE 2. SPECIFIC AUTHORIZATIONS IN H.R. 1588

Category	By Fiscal Year, in Millions of Dollars 2004	2005	2006	2007	2008
Military Personnel					
Authorization Level	98,939	0	0	0	0
Estimated Outlays	94,261	3,958	198	99	0
Operation and Maintenance					
Authorization Level	130,324	0	0	0	0
Estimated Outlays	99,603	24,895	3,779	1,058	331
Procurement					
Authorization Level	76,490	0	0	0	0
Estimated Outlays	22,726	28,966	15,209	4,900	1,899
Research, Development, Test, and Evaluation					
Authorization Level	62,686	0	0	0	0
Estimated Outlays	33,755	22,909	4,711	759	197
Military Construction and Family Housing					
Authorization Level	9,790	0	0	0	0
Estimated Outlays	2,615	3,545	2,000	823	407
Atomic Energy Defense Activities					
Authorization Level	16,699	0	0	0	0
Estimated Outlays	11,493	4,341	863	2	0
Other Accounts					
Authorization Level	3,033	5	411	161	166
Estimated Outlays	2,016	722	362	290	260
General Transfer Authority					
Authorization Level	0	0	0	0	0
Estimated Outlays	875	-188	-375	-188	-63
Total					
Authorization Levels[a]	397,961	5	411	161	166
Estimated Outlays	267,344	89,148	26,747	7,743	3,031

a. These amounts comprise nearly all of the proposed changes for authorizations of appropriations for 2004 shown in Table 1; they do not include the estimated authorization of $120 million for the Coast Guard Reserve, which is shown in Table 3. For 2005-2008 they include various authorizations for the Maritime Administration discussed later in the estimate and shown in Table 4, plus $5 million in annual authorizations for the Sikes Act.

The bill also contains provisions that would both increase and decrease various costs, mostly for personnel, that would be covered by the fiscal year 2004 authorization and by authorizations in future years. Table 3 contains estimates of those amounts. In addition to the costs covered by the authorizations in the bill for 2004, CBO estimates that these combined provisions would reduce estimated costs by $850 million over the 2005-2008 period. These amounts do not include the costs of sections 541, 617, 618, 908, 1031, 1032, 1038, or 1111 because CBO cannot estimate the costs at this time. Those sections of the bill pertain primarily to military and civilian pay and benefits. The provisions identified in Table 3 are described below, including information about CBO's estimates of costs for those provisions.

Multiyear Procurement. In most cases, purchases of weapon systems are authorized annually, and as a result, DoD negotiates a separate contract for each annual purchase. In a small number of cases, the law permits multiyear procurement; that is, it allows DoD to enter into a contract to buy specified annual quantities of a system for up to five years. In those cases, DoD can negotiate lower prices because its commitment to purchase the weapons gives the contractor an incentive to find more economical ways to manufacture the weapon, including cost-saving investments. Annual funding is provided for these multiyear contracts, but potential termination costs are covered by an initial appropriation.

Section 121 would authorize the Secretary of the Navy to enter into a multiyear contract to purchase 234 F/A-18 aircraft beginning in 2005 in the F/A-18E, F/A-18F, and EA-18G configurations. Based on information provided by the Navy, CBO assumes that the Navy would procure 168 aircraft over the 2005-2008 period. CBO estimates that savings from buying these aircraft under a multiyear contract would total $818 million, or about $204 million a year, over the 2005-2008 period. Funding requirements to purchase these aircraft would total just under $12.9 billion over the 2005-2008 period (instead of the $13.7 billion that would be needed under annual contracts). CBO also estimates that additional savings of $235 million would accrue in 2009 if the Navy completes its planned purchase of 42 more aircraft under this multiyear procurement authority.

Section 122 would authorize the Secretary of the Navy to enter into a multiyear contract to purchase tactical Tomahawk cruise missiles starting in fiscal year 2004 and would direct the Secretary to purchase no more than 900 missiles a year. Based on information provided by the Navy, CBO assumes that the Navy would buy 1,784 missiles over the 2004-2008 period. CBO estimates that savings from buying these missiles under a multiyear contract would total about $135 million over the 2004-2008 period, or about $75,000 a missile. Funding requirements to purchase these missiles would total just over $1.6 billion over the 2004-2008 period (instead of the almost $1.8 billion that would be needed under annual contracts). Multiyear procurement of tactical Tomahawk missiles would raise costs in 2004 because the Navy would need to provide for advance purchases of components for missiles it would purchase later in the 2004-2008 period.

TABLE 3. ESTIMATED AUTHORIZATIONS OF APPROPRIATIONS FOR SELECTED PROVISIONS IN H.R. 1588[a]

Category	2004	2005	2006	2007	2008
	By Fiscal Year, in Millions of Dollars				
MULTIYEAR PROCUREMENT					
F/A-18E/F Aircraft	0	-166	-205	-211	-236
Tactical Tomahawk Missile	3	-40	-43	-32	-23
Virginia Class Submarines	275	210	-64	-613	-613
E-2C and TE-2C Aircraft and Engines	-62	2	0	2	0
FORCE STRUCTURE					
DoD Military Endstrengths	248	510	527	544	562
Coast Guard Reserve Endstrength	120	0	0	0	0
Required Force Structure	20	268	269	340	281
COMPENSATION AND BENEFITS (DoD)					
Military Pay Raises	190	269	279	288	298
Coast Guard Pay Raises	6	8	9	9	9
Expiring Bonuses and Allowances	624	550	327	217	151
Special Pays for Service in Iraq and Afghanistan	263	112	81	81	57
Lodging Expenses for Reservists	132	13	10	7	5
Undermanned Occupation Bonus	8	2	0	0	0
Other Provisions	5	6	6	6	6
CIVILIAN PROGRAMS					
Reduce Acquisition Workforce	-70	-479	-911	-1,367	-2,110
Modification of Overtime Pay Cap	107	147	151	156	161
Senior Executive Service Pay	23	31	31	31	31
Administration of Flexible Spending Accounts	22	28	33	39	44
Asbestos Differential Pay	-290	-290	-290	-290	-290
DEFENSE HEALTH PROGRAM					
Uniformed Services Medicare-Eligible Retiree Healthcare Fund	0	14	0	0	0
OTHER PROVISIONS					
Base Realignment and Closure Property	68	53	27	27	27
Expanded Commissary Benefits for Reservists	4	4	4	4	4
Assistance for Victims of Domestic Abuse	3	3	3	3	3
Chaplain-Led Programs	3	5	6	6	6
Construct Wetlands Crossings at Camp Shelby	5	0	0	0	0
Services Acquisition Reform	6	6	6	6	6
BILL TOTAL					
Estimated Authorization Level[a]	1,713	1,266	256	-747	-1,621

NOTES: For every item in this table except the authorization for the Coast Guard Reserve, the 2004 levels are included in Table 2 as amounts specifically authorized to be appropriated in the bill. Amounts shown in this table for 2005 through 2008 are not included in Table 1.

a. These amounts do not include the costs of sections 541, 617, 618, 908, 1031-1033, or 1111 because CBO cannot estimate such costs at this time.

Section 123 would authorize the Secretary of the Navy to enter into a multiyear contract for procurement of Virginia class submarines starting in fiscal year 2004. Based on information provided by the Navy, CBO assumes that the Navy would buy seven submarines over the 2004-2008 period. CBO estimates that savings from buying these submarines under a multiyear contract would total $805 million, or about $115 million a submarine, over the 2004-2008 period. CBO estimates that funding requirements to purchase these submarines, as well as funding the advance purchase of components for future boats, would total about $15.4 billion over the 2004-2008 period (instead of the $16.2 billion that would be needed under annual contracts). Multiyear procurement of Virginia class submarines would raise costs in 2004 and 2005 because the Navy would need to provide increased funding in each of those years for advance purchases of components for the submarines that it would purchase later in the 2004-2008 period.

Section 124 would authorize the Secretary of the Navy to enter into a four-year multiyear contract to purchase four E-2C aircraft, four TE-2C aircraft, and 16 engines for these aircraft, beginning in 2004. CBO estimates that savings from buying these aircraft and engines under a multiyear contract would total almost $60 million, or about $15 million a year, over the 2004-2007 period. Funding requirements would total just over $950 million over the 2004-2007 period (instead of the roughly $1 billion that would be needed under annual contracts).

Military Endstrength. The bill would authorize active and reserve endstrength levels for 2004 and would increase the minimum endstrength authorization in permanent law. The authorized endstrengths for active-duty personnel and personnel in the selected reserve would total about 1,400,000 and 863,000, respectively. Of those selected reservists, about 70,000 would serve on active duty in support of the reserves. The bill would specifically authorize appropriations of $98.9 billion for the discretionary costs of military pay and allowances in 2004. The authorized endstrength represents a net increase of 3,385 servicemembers that would boost costs for salaries and other expenses by $248 million in the first year and about $535 million annually in subsequent years, compared to the authorized strengths for 2003.

The bill also would authorize an endstrength of 10,000 servicemembers in 2004 for the Coast Guard Reserve. This authorization would cost about $120 million and would fall under budget function 400 (transportation).

Required Force Structure. Section 911 would require that the Army, Navy, and Air Force maintain a certain force structure. It would specifically direct the Navy to have not less than 305 vessels in active service. The current Navy fleet consists of about 300 ships, but the Navy plans to reduce that amount to 292 ships in 2004 after retiring several surface combatants including Spruance-class destroyers and Ticonderoga-class cruisers. This provision would require the Navy to keep those ships in the fleet for several more years until new ships that are under construction arrive to replace them. Based on information from the Navy, CBO estimates that implementing this provision would require the Navy to keep nine destroyers, two cruisers, and two landing ship docks in the fleet over much of the 2004-2008 period instead of retiring them. CBO estimates that the operations and maintenance costs to keep these ships in the fleet would total about $1.1 billion over the 2005-2008 period. There would be no costs in 2004 because CBO estimates the operating costs would be offset by the savings from forgoing the decommissioning of these ships.

Section 911 also would require the Air Force to maintain 46 fighter squadrons in its active force. Currently, the Air Force has 45 active squadrons. It plans to add one squadron of F/A-22 aircraft in 2004 and retire one squadron of A-10 aircraft, sustaining a force of 45 squadrons. CBO assumes that the Air Force would retain the A-10 squadron over the 2004-2008 period to meet the bill's requirement to maintain 46 active squadrons. CBO estimates that the cost to keep the A-10 squadron in active service would be about $100 million over the 2004-2008 period.

Compensation and Benefits. H.R. 1588 contains several provisions that would affect military compensation and benefits for uniformed personnel.

Military Pay Raises. Section 601 would raise basic pay for individuals in the Army, Navy, Marine Corps, and Air Force with specific ranks and years of service by 2 percent across-the-board, and would authorize additional targeted pay raises for 2004, ranging from 1.2 percent to 4.25 percent for 2004. CBO estimates that implementing this provision would cost about $2.1 billion in 2004. Because the pay raises would be above those projected under current law, CBO estimates that the incremental costs associated with the larger pay raise would be about $190 million in 2004 and total $1.3 billion over the 2004-2008 period.

This section also would raise basic pay for members of the Coast Guard by the same across-the-board and targeted pay rates for a total cost of $60 million in 2004. Because these pay raises also would be above those projected under current law, CBO estimates that the incremental costs associated with the larger pay raises would be about $6 million in 2004 and $41 million over the 2004-2008 period.

Expiring Bonuses and Allowances. Several sections of H.R. 1588 would extend DoD's authority to pay certain bonuses and allowances to current personnel. Under current law, most of these authorities are scheduled to expire in December 2003, or three months into fiscal year 2004. The bill would extend these authorities through December 2004. Based on data provided by DoD, CBO estimates that the costs of these extensions would be as follows:

- Payment of reenlistment bonuses for active-duty personnel would cost $305 million in 2004 and $171 million in 2005; enlistment bonuses for active-duty personnel would cost $113 million in 2004 and $163 million in 2005;

- Various bonuses for the Selected and Ready Reserve would cost $78 million in 2004 and $89 million in 2005;

- Special payments for aviators and nuclear-qualified personnel would cost $73 million in 2004 and $78 million in 2005;

- Retention bonuses for officers and enlisted members with critical skills would cost $14 million in 2004 and $9 million in 2005; and

- Authorities to make special payments and give bonuses to certain health care professionals would cost $41 million in 2004 and $40 million in 2005.

Most of these changes would result in additional, smaller costs in subsequent years because payments are made in installments.

Special Payments for Service in Iraq and Afghanistan. Section 622 would increase certain special payments to servicemembers who serve in a combat zone designated for Operation Iraqi Freedom or Operation Enduring Freedom effective October 1, 2003. (Public Law 108-11 raised these payments for fiscal year 2003 but that authority expires at the end of the fiscal year.) Under current law, the rates for imminent danger pay and the family separation allowance are set at $150 per month and $100 per month, respectively, for fiscal year 2004 and subsequent years. Section 622 would increase those respective rates to $225 per month and $250 per month for those servicemembers serving in the designated combat zones until the President calls an end to the operations. Based on information from DoD about current troop levels in those two areas and CBO assumptions about future troop levels, CBO estimates that implementing this section would cost $263 million in 2004 and $594 million over the 2004-2008 period. Should the President change the name of these operations to reflect a change in mission, CBO expects that the costs would be less than the estimated amounts because the provision would only apply to the operations so named.

Lodging Expenses for Reservists. Under current law, a member of the Reserve Components who is called to active duty is eligible for lodging per diem if he or she is assigned to duty away from home. The member is not eligible for lodging per diem while on leave, however.

Section 633 would allow DoD to reimburse a reservist called to active duty for lodging expenses incurred while on leave. This section also would apply retroactively to reservists who served on active duty away from home between September 11, 2001, and the date of enactment of the bill.

Since September 11, 2001, over 300,000 reservists have been called to active duty according to DoD. CBO assumes that 90,000 reservists will be on active duty in 2004 and that the number will decline to about 15,000 reservists by 2008, assuming no hostilities occur elsewhere in the world. Based on data from DoD, CBO assumes that about 50 percent of these reservists on active duty are away from home and receive an average lodging per diem of $55 a day. With an average tour length of one year and one leave day a month, CBO estimates that implementing this section would cost $132 million in 2004 and $167 million over the 2004-2008 period. Of these amounts, about $100 million would be paid to qualified reservists who were called up before this bill is enacted.

Undermanned Occupation Bonus. Section 621 would give DoD the authority to offer an incentive bonus of up to $4,000 to encourage certain enlisted members to convert from their current occupational specialty to an occupational specialty where there is a critical shortage of personnel. The new authority would expire on December 31, 2004. According to DoD, the Navy is the only service with the immediate intention to offer this bonus. The Navy plans to scale the amount of the bonus to the degree that an occupational speciality is critically short of personnel. In other words, the Navy would offer a smaller bonus to servicemembers who convert to occupational specialties where there is less of a critical shortage in personnel. Given the number of occupation conversions experienced in previous years, the Navy estimates that about 2,500 enlisted servicemembers would receive this bonus in 2004. Assuming the average bonus is $3,000, CBO estimates that implementing this section would cost $8 million in 2004 and $2 million in 2005.

Other Provisions. Section 620 would authorize DoD to grant special pay of $150 a month to servicemembers who are assigned to duty as members of Weapons of Mass Destruction Civil Support Teams. Section 615 would give reservists the same full monthly hazardous duty pay for performing demolition duty or parachute jumping that active-duty servicemembers receive. Section 534 would give DoD the authority to pay the interest on student loans for reservists with critical skills. Section 535 would allow students in the second year of a four-year Senior Reserve Officer Training Course to receive a monthly stipend. CBO estimates the cost of these increased authorities would total $5 million in 2004 and $29 million over the 2004-2008 period.

Section 541 would change the payment amount that servicemembers who are deployed away from their home base receive if they are gone more than 400 days out of a two-year period and add two additional categories of eligibility for this payment—deployment over 190 consecutive days and call up to active duty for the second time for the same contingency operation. Section 617 would expand to officers an incentive program which encourages enlisted servicemembers to extend the length of their overseas assignments. Section 618 would allow DoD to offer this bonus of up to $60,000 to newly appointed officers with critical skills. CBO cannot estimate the budgetary impact of implementing these provisions, however, since DoD is unable to provide information about how the department would implement these provisions.

National Security Personnel System. Section 1111 would create a new human resources management system for DoD; would allow DoD to give certain employees outside the United States the same pay and benefits as the Foreign Service or Central Intelligence Agency; would require DoD, to the maximum extent practicable, adjust rates of compensation for civilian employees at the same rate as military personnel; and would allow DoD to provide additional pay to attract highly qualified experts. All of these authorities could potentially affect federal spending.

CBO cannot estimate the budgetary impact of implementing these provisions since DoD has not indicated how it would supplant—or improve upon—the personnel system currently governing the department; how many employees would benefit from receiving the same pay and benefits as the Foreign Service or Central Intelligence Agency as the number is classified; whether or how it might institute pay parity between its civilian employees and military members; or how many people it might hire under the authority to provide additional pay to attract highly qualified experts.

Section 908 would require DoD to conduct a pilot program using an automated workforce management system to manage its civilian personnel. CBO cannot estimate the budgetary impact of implementing this provision since DoD has not indicated what automated system it would use nor indicated what it might cost to acquire this system.

Defense Acquisition Workforce Reductions. Section 910 would direct DoD to reduce the number of defense acquisition and support personnel within the department by 5 percent each fiscal year over the 2004-2007 period. These reductions would be measured against a baseline workforce defined as the number of defense acquisition and support personnel employed by the department as of October 1, 2003. Based on data from DoD, CBO assumes that the baseline workforce would total about 131,000 personnel on that date and that about 20 percent of that number would be military personnel who would be reassigned to other jobs within the department over the 2004-2008 period. Thus, under the provision, CBO estimates that about 5,300 civilians would need to be cut from the defense acquisition workforce each year. Assuming that these reductions would occur evenly throughout the year and that the average cost of a civilian employee within DoD would be about $77,000 in 2004, CBO estimates that the savings in salaries and benefits that would accrue from this reduction would total about $200 million in 2004 and $5.5 billion over the 2004-2008 period. If DoD chose to replace these workers with contract personnel, these savings would not be realized.

Those potential savings would be offset somewhat by the cost of severance packages that DoD would offer. Based on historical attrition data provided by DoD for its civilian workforce, CBO assumes that about 1 percent of this population would leave the acquisition workforce each year for reasons unrelated to the mandated reductions and would not be replaced. CBO assumes that the remaining 5,200 workers that must leave DoD each year would be offered severance packages of about $25,000 each, for a total cost of about $130 million each year or $520 million over the 2004-2007 period. Thus, CBO estimates that the net savings under this provisions would total about $70 million in 2004 and almost $5 billion over the 2004-2008 period.

Modification of the Overtime Pay Cap. Under current law, overtime pay for work in excess of 40 hours per week for federal managers, supervisors, and other employees exempted under the Fair Labor Standards Act (FLSA) is limited to a set rate of roughly $32 an hour (one and a half times the normal rate for a general schedule (GS) grade 10 (GS-10), step 1, employee). Employees who earn salaries above GS-12, step 5, receive overtime pay at a rate that is, on an hourly basis, less than their regular pay.

Section 1101 would raise the overtime pay rate to either one and one-half times the hourly rate of a GS-10, step 1, or the hourly rate of the basic pay of the employee, whichever is greater. Although this change would not affect employees at GS-12, step 5, and lower, those above this pay rate would earn their hourly rate of pay for overtime work. Based on information from the Office of Personnel Management (OPM) on the number of FLSA-exempted employees at each grade and information on overtime worked, CBO estimates that implementing the proposal would cost approximately $100 million in 2004 and $0.7 billion over the 2004-2008 period.

About 680,000 federal employees at GS-10 and above are exempt from the FLSA, which is about 36.7 percent of the general schedule (and related) workforce. For this estimate, CBO assumes that this employee group worked 37 percent of all overtime performed by FLSA-exempt employees. We also assume that those overtime hours are distributed proportionately across GS-10 through GS-13 employees, with GS-14 and GS-15 employees working one-third of the hours. CBO estimated the cost of the proposal by calculating the cost of those overtime hours at the set rate under current law and then calculating the cost of that same amount of overtime at the set rate or the employee's hourly rate, whichever is greater.

Senior Executive Service (SES) Performance Provisions. Under current law, SES employees are paid at six different pay levels. Base pay is capped at Level IV of the Executive Schedule ($134,000) and the maximum pay with the locality-based comparability adjustment is set at Level III of the Executive Schedule ($142,500). SES employees receive the same annual across-the-board pay raises and locality-based comparability adjustments that GS employees receive.

Effective January 1, 2004, section 1107 would eliminate the six SES pay levels and raise the cap on base pay to $142,500. Locality adjustments to SES pay would be eliminated. The proposal would affect roughly 7,900 employees.

The legislation specifies that no SES employee would experience a reduction in the rate of basic pay in the first year after this legislation is enacted, and CBO assumes that this would continue to be true after the first year. Because the salaries of many SES employees are at the current caps (or are expected to reach such caps over the next few years), raising the cap on base pay would allow those employees to get pay raises. Assuming that executive level salaries (and thus the caps) are raised by the full amount authorized under current law by the Ethics Reform Act, CBO estimates that the legislation would cost $147 million in authorizations over the 2004-2008 period.

Federal Flexible Benefits Plan Administrative Costs. Under current law, federal employees will be allowed to enroll in a flexible spending account (FSA) program offered through OPM beginning in May 2003. An FSA is an employee benefit that allows employees to set aside money, on a pre-tax basis, for health care and dependent care expenses. The administrative costs to the program will be paid by participating employees based on a formula to collect $48 annually for each health care account and 1.5 percent of the total dependent care account.

Section 1108 would prevent any fees from being charged to federal employees for the administrative costs to operate the FSAs. Based on information from the federal judiciary's FSA program and the operation of private FSAs, CBO estimates that about 10 percent of federal employees will initially enroll in the plan, and we expect participation to grow to about 20 percent of federal employees over the next five years. Under the bill, administrative costs of operating the plans would be subject to appropriation of the necessary amounts. Based on the fees OPM plans to charge participants and expected employee participation rates, we estimate that implementing this provision of the bill would cost about $160 million over the 2004-2008 period.

Asbestos Differential Pay. Under section 1104, federal wage-grade employees would be subject to the same standards as general schedule employees when determining eligibility for environmental differential pay (EDP), based on exposure to asbestos. Under current law, general schedule employees are entitled to 8 percent hazard differential pay if they are exposed to asbestos that exceeds the permissible exposure limits established by the Occupational Safety and Health Administration (OSHA). The current EDP standard for wage-grade employees entitles them to the same 8 percent of pay, but does not set an objective measure for determining the level of asbestos exposure necessary to qualify for EDP. In several instances where wage-grade employees have sought back pay for EDP, arbitrators found in favor of the employees when asbestos levels were below those consistent with OSHA standards. Based on information from DoD on prior and pending arbitration rulings, CBO expects that implementing section 1104 would reduce the amount of back pay federal agencies would be required to pay for EDP based on asbestos exposure. Assuming these cases would be handled administratively, CBO estimates establishing OSHA standards for asbestos EDP would save $290 million in 2004 and about $1.5 billion over the 2004-2008 period, assuming appropriations are reduced by the estimated amounts.

Defense Health Program. Title VII contains a number of provisions that would affect DoD health care and benefits. TRICARE For Life (TFL) is a program that provides health care benefits to all retirees of the uniformed services, their dependents, and survivors who are eligible for Medicare and enroll in Medicare Part B. TFL provides a generous prescription drug benefit and covers all out-of-pocket costs for those benefits that are provided by both Medicare and TRICARE.

Uniformed Services Medicare-Eligible Retiree Healthcare Fund. Under current law, this fund provides the amounts necessary to pay for the TFL benefit. The fund is financed through monthly payments from DoD, annual amortization payments by the Treasury, and interest earned on the fund's current balances. The amount that DoD must pay into the fund is determined by the Secretary of Defense, who must use methods and assumptions approved by an independent board of actuaries to calculate the payment amount or rate. The payment rate is calculated using a number of factors including the probability that servicemembers currently on active duty will retire from military service. Under current law, the Secretary of Defense is not allowed to establish separate payment rates for each of the uniformed services, even though the overall probability of retiring from the Public Health Service (PHS) and the National Oceanic and Atmospheric Administration (NOAA) is higher than the probability of retiring from the Army, Navy, Air Force, or Coast Guard.

Section 701 would allow DoD to calculate separate payment rates for the different services if the Secretary determines that doing so improves the quality of the actuarial estimate. CBO estimates that implementing this provision would have no effect on payments to the fund in 2004 but would likely increase the payments PHS and NOAA make to the fund in 2005.

CBO estimates that implementing this provision would have no effect on payments into the fund in 2004 because the payment amounts have already been established and it appears unlikely that the independent board of actuaries would approve any change in assumptions and methods necessary to revise the amounts for that year for the proposed change in law. Although the payment amounts for 2005 may be determined before the enactment of this bill—the board approved the assumptions and methods on May 2, 2003, and the Secretary is expected to determine the rates shortly—CBO believes that the board would likely meet to approve the assumptions and methods necessary for the Secretary of Defense to set new payment rates if they were authorized. CBO expects that separate payment rates for NOAA and PHS would be higher than the rate currently set for fiscal year 2005 because the recommended rate does not presently incorporate information about the higher retirement probabilities for NOAA and PHS.

Using information from the respective organizations, CBO estimates that there are about 6,000 uniformed officers in the PHS and NOAA, with most in PHS. Based on data from DoD's Office of the Actuary, CBO estimates that implementing separate payment rates for PHS and NOAA would increase the payments these organizations must make to the fund in 2005 by almost $2,400 an officer or about $14 million, assuming appropriation of the estimated amounts. CBO estimates there would be no change in the level of payments made by DoD or the Coast Guard because the current method for calculating the payment relies solely on DoD data.

CBO does not estimate an impact from having separate payment rates over the 2006-2008 period. The Secretary currently uses only DoD retirement experience to calculate the probability of retiring from the uniformed services, primarily because the fund initially only covered DoD beneficiaries. As data for the other uniformed services becomes available, CBO expects that, absent this provision, DoD would consider that new data when determining the single rate it would charge all of uniformed services for 2006 and subsequent years. Incorporating that data would likely raise the single rate charged to all services somewhat. CBO expects that using separate rates for each service as provided for in the bill would increase costs to PHS and NOAA each year, but would lower costs to DoD and the Coast Guard by approximately the same amount. Thus, total payments into the trust fund would not likely change much over the 2006-2008 period.

Medical and Dental Screening. Section 707 would allow DoD to provide medical and dental screening to members of the selected reserve who are assigned to units that have been alerted for mobilization. Under current law, DoD cannot provide this screening until the reservist has been mobilized. CBO does not expect that speeding up these evaluations would increase the overall amount of medical and dental screening DoD provides to reservists. Because this provision would allow DoD to provide some medical and dental screening earlier than it otherwise would, CBO estimates that implementing the authority would likely affect the timing of outlays but that the net effect would be insignificant.

Sources of Supply. Several sections of Title VIII would require the Department of Defense to procure certain raw materials, parts, and components solely from sources within the United States. It also would require companies that produce major defense systems to use only U.S-manufactured machinery in the production of those systems. By restricting the sources of supply and imposing a new inventory management burden on defense contractors, CBO expects that implementing these provisions could increase the costs of supplies, parts, and overall weapons systems, and could increase the requirement for future appropriations. CBO has insufficient data to estimate the cost impact but we think it might be large given the number and complexity of weapon systems that DoD plans to develop and purchase over the 2004-2008 period.

Base Realignment and Closure (BRAC) Property. Section 2805 would authorize DoD to convey to any nonfederal entity property at closed military installations or at military installations identified for closure. In exchange for that property, the recipient would be required to construct military facilities or family housing at another military installation or provide services associated with the construction of these facilities. Section 2805 would stipulate that projects received under the barter arrangement must be ones already authorized by the Congress and must be equal to the fair market value of the property conveyed. The provision also would direct each of the military services to use this authority to the maximum extent possible to convey at least 20 percent of the property that they plan to dispose of each year to obtain up to $200 million worth of military facilities and family housing projects each year.

Under current law, DoD has the authority to sell this property and spend the offsetting collections, without further appropriation, on environmental cleanup and caretaker expenses at installations that are being closed under previous BRAC authorities. CBO expects that, under section 2805, conveying these properties in exchange for military construction or family housing projects would eliminate a portion of the collections that would normally be used to offset BRAC cleanup expenses, thus increasing the requirement for discretionary appropriations to pay for these expenses.

Over the last 15 years, the Department of Defense has collected and spent about $30 million a year on average from the disposal of BRAC property. According to budget documents, the department plans to collect and spend $68 million in 2004 and $53 million in 2005 under these authorities. Assuming that DoD exchanges BRAC property as stipulated under section 2805, CBO estimates that implementing this provision would increase requirements for appropriated funds for environmental cleanup and caretaker expenses at closed installations by $68 million in 2004 and about $200 million over the 2004-2008 period.

Expanded Commissary Benefits for Reservists. Section 651 would eliminate restrictions on commissary use by members of the ready reserve, retirees of the ready reserve who are less than 60 years of age, and their dependents. Currently, members of the ready reserve who meet their yearly training requirements and retirees of the ready reserve who are under the age of 60 are allowed to shop at a commissary 24 times a year. Members of the ready reserve who do not meet their yearly training requirements do not have commissary privileges.

Section 651 would eliminate these restrictions so that reservists in good standing and retirees of the ready reserve who are less than 60 years of age would have the same commissary privileges as active-duty servicemembers. Based on information from the Defense Commissary Agency, CBO estimates that reservists and reserve retirees who are currently allowed 24 commissary visits a year would not significantly alter their commissary usage if this restriction were lifted. Thus, CBO estimates would have no significant impact on the cost of operating defense commissaries if this restriction were lifted.

This section also would allow members in the ready reserve who do not meet the yearly training requirements to have commissary privileges, but their access would be subject to the policies established by the local base commander (similar to current policies in effect for the use of morale, welfare, and recreation facilities). CBO estimates about 87,000 reservists in the ready reserves who currently have no commissary privileges would be affected by this provision. Because most reservists do not live close to commissaries and would not use the benefit, CBO estimates the additional cost of operating the commissary system associated with these additional reservists would only be about $40 per person a year, or about $4 million each year over the 2004-2008 period.

Biomedical Countermeasures. Three sections of the bill would address DoD's ability to protect the Armed Forces from biological, chemical, nuclear, and radiological threats by making it easier to use current authorities to research, develop, and procure biological countermeasures for these threats. Although these provisions could speed up or increase subject to appropriation spending, CBO does not have enough information to estimate the net effect on spending over the 2004-2008 period.

Section 1031 would increase the simplified acquisition threshold for procurement that supports biomedical research and development from $100,000 to $25 million. The section also would authorize DoD to use personal services contracts to employ up to 30 individuals for research and development and appoint up to 30 professional and technical employees without regard to certain sections of title 5, United States Code, that govern appointments in the competitive service, classification, and General Schedule pay rates. Section 1032 would allow DoD to procure biological countermeasures even if they had not yet been approved by the Food and Drug Administration (FDA), as long as the Secretary of Defense, in consultation with the Secretary of HHS, determines that the countermeasures have the potential to be licensed or approved by the FDA within five years. For 2004, section 1032 would authorize such sums as are available under DoD's general transfer authority to purchase these qualified countermeasures and for every year thereafter it would authorize such sums as may be necessary. Section 1033 would allow DoD to use biomedical countermeasures that are not licensed or approved by the FDA in an emergency setting if the Secretary of Defense, in consultation with the Secretary of HHS, determines that there is no adequate, approved, or alternative countermeasure available.

Assistance for Victims of Domestic Violence. Section 572 would increase the length of time that a victim of domestic violence receives assistance from DoD. Under current law, the department provides transitional compensation to the spouse and any children of a servicemember who must separate from the military because of dependent-abuse offenses. The amount of the compensation is linked to the dependent and indemnity compensation benefit provided by the Department of Veterans Affairs (VA) and is paid for 36 months or the remainder of the unserved portion of the servicemember's military obligation, whichever is shorter. According to DoD, families of enlisted servicemembers often receive less than 36 months of compensation. Section 572 would allow for all recipients of transitional compensation to receive it for the full 36-month period. Based on information from DoD indicating that the majority of recipients receive the benefit for 24 months on average and that the total amount of transitional compensation paid in fiscal year 2000 was less than $6 million, CBO estimates implementing this section would cost about $2 million per year.

Section 571 would require DoD to pay to move a spouse and any dependent children who have been abused by a servicemember if the victim's safety is at risk. Costs would include travel costs for the family and transportation of household goods and a vehicle. Based on information about the amount of transitional compensation paid in fiscal year 2000 and the average benefit amount for that year, CBO estimates that about 400 spouses receive assistance each year for being victims of domestic violence. Using the average cost to move a servicemember with dependents (about $2,000 in 2004), CBO estimates that implementing this section would cost about $1 million per year.

Chaplain-Led Family Support Programs. Section 564 would expand and permanently extend chaplain-led programs to assist servicemembers in building and maintaining strong families. Under authority provided in Public Law 107-248, DoD may use appropriated funds to pay for transportation, food, lodging, supplies, fees, and training materials for servicemembers and their family members who participate in such programs. The authority expires at the end of fiscal year 2003. The bill would make these programs permanent and also would include the cost of child care as an eligible expense. Based on information from DoD, CBO estimates that the Army would expand its program from the current level of about $1 million (serving 48 brigades) to about $6 million a year by 2006 (serving 144 brigades). The Navy- and Air Force-sponsored family support programs pre-date Public Law 107-248. The Navy currently spends roughly $1 million a year on family support programs and the Air Force spends less than $500,000 annually. Neither branch has any immediate plans to use the new authority provided in the bill, but if they were to do so, there would be modest additional costs.

Wetland Crossings at Camp Shelby. Section 320 would authorize the Army to use operation and maintenance funds to construct water crossings for use by armored vehicles at Camp Shelby, Mississippi, to protect wetland areas located there. Based on information from the Army National Guard, CBO estimates it would cost about $5 million in 2004 to construct these crossings. According to the Army National Guard, the construction in 2004 would likely constitute the first phase of a potentially larger project which would require further Congressional authorization.

Services Acquisition Reform. Title XIV contains sections that address service acquisition reform; some of which have cost. Section 1412 would authorize the establishment of an Acquisition Workforce Training Fund. Under the bill, 5 percent of the fees collected by the General Services Administration (GSA) from other, nondefense agencies that procure goods and services through GSA's governmentwide contracts would be deposited in the new fund. GSA generates most of those fees by charging other federal agencies approximately 1 percent of the cost of purchases made through GSA's contracts for supply schedule services and data processing. That fee is designed to recover administrative costs incurred by GSA. In 2002, GSA collected $88 million in fees from agencies other than the Department of Defense. Thus, CBO estimates that this provision would authorize GSA to charge agencies a fee sufficient to establish a $5 million Acquisition Workforce Training Fund each year, as well as continuing to cover the administrative costs of GSA's contracting programs.

Other provisions in Title XIV would establish a new advisory panel to review procurement policies, a Chief Acquisition Officers Council, and a center of excellence in the Office of Federal Procurement Policy; would require GSA, the Office of Personnel Management, and the Office of Management and Budget to issue implementing regulations; and would require the General Accounting Office to prepare certain studies on procurement issues. In total, CBO estimates that implementing these provisions would cost $1 million annually over the 2004-2008 period.

Funding for Special Compensation for Disabled Retirees of the Uniformed Services. Under current law, veterans who retire from the military, the Coast Guard, PHS, or NOAA cannot receive both full retirement annuities and disability compensation from the VA. To receive the non-taxable veterans' compensation benefit, retirees must forgo an equal amount of their taxable retirement annuity. Allowing the receipt of both benefits is often referred to as "concurrent receipt." Two programs currently offer special benefits to retirees who are affected by the ban on concurrent receipt.

The first is a program of special compensation for severely disabled retirees of the uniformed services that pays a monthly stipend to certain retirees who are rated by VA as 60 percent or more disabled. The second program, scheduled to begin June 1, 2003, will pay a monthly benefit to retirees who receive disability compensation from VA for the injury for which they were awarded a Purple Heart or have certain combat- or training-related disabilities for which they receive compensation from VA. The benefit will equal the amount of retirement annuity forgone as a result of the ban on concurrent receipt. CBO estimates these programs will together pay military retirees about $300 million in 2004, and $2.8 billion over the 2004-2008 period. Such payments for both programs are currently made from DoD's military personnel accounts. Under section 641, payments under these programs would become a liability of the Military Retirement Fund.

The military retirement system is financed in part by an annual payment from appropriated funds to the Military Retirement Fund, based on an estimate of the system's accruing liabilities. If these special compensation payments were to become a liability of the Military Retirement Fund, DoD's yearly contribution to the fund (paid from the military personal accounts) would normally increase to reflect the added liability from the expected increase in payments to future retirees. This increase—or accrual payment—would recognize the additional costs of deferred compensation in the years during which servicemembers are working, rather than when the benefits are actually paid. Accrual budgeting provides decisionmakers with more complete information about the full costs of labor and provides incentives to use labor cost-effectively.

Under section 641, however, the incremental increase in the accrual payment would be paid by the Secretary of the Treasury and, therefore, not recognized in DoD's budget. Using information from DoD, CBO estimates that the accrual payment from the Treasury would be $100 million in 2004, and total about $930 million over the 2004-2008 period.

Fast Ships. Section 1014 would authorize the appropriation of $40 million to the Secretary of the Navy to pay the subsidy costs of guaranteeing a loan to construct two high-speed ships in a U.S. shipyard. Under the bill the Secretary would be authorized to issue a 25-year guarantee that would cover up to 87.5 percent of the principal of the loan. CBO expects that construction and related acquisition costs for this project would be around $1 billion. Based on information provided by the Maritime Administration (MARAD) and potential participants in this project, CBO expects that construction would involve a very high subsidy cost because of the expense of the project as well the market and financial uncertainties inherent in the proposal. As a result, we estimate that the $40 million amounts made available under the bill and about $34 million previously appropriated to the Navy for this purpose would be sufficient to guarantee only a portion of the project's full costs. CBO estimates that the subsidy costs for guaranteeing 87.5 percent of the entire project would require appropriations of more than $100 million.

Maritime Administration. Title XXXV would authorize appropriations for programs carried out within the Department of Transportation by MARAD (see Table 4).

Subtitle B of title XXXV would reauthorize and amend the maritime security program beginning in fiscal year 2006. This program, which expires at the end of fiscal year 2005, provides operating subsidies to owners or operators of U.S. flag vessels carrying cargo between the United States and foreign ports. In exchange, eligible vessel owners or operators agree to keep their ships in the U.S. flag fleet and make them available to DoD when needed for national security purposes.

Subtitle C would expand the maritime security program from the current 47 ships to 60 ships, including up to five tankers. The annual subsidy payment also would increase from its present $2.1 million per ship to $2.6 million per ship for each of fiscal years 2006 and 2007, and to whatever amounts the Secretary of Transportation deems necessary for each ensuing year that a vessel remains in the program. For these payments, the bill would authorize the appropriation of $156 million for each of fiscal years 2006 and 2007 and whatever sums are necessary for each thereafter through 2015 for these programs.

Subtitle C also would authorize, after fiscal year 2004, the appropriation of $250 million to subsidize the cost of constructing five commercial product tankers in a U.S. shipyard. The tankers would operate as U.S. flag vessels in the U.S.-foreign trade and would be available to DoD for national defense purposes upon request.

Subtitle D would authorize appropriations for fiscal year 2004 for routine MARAD activities, including $104 million for operations and training, $39 million for loan guarantees and associated administrative expenses under Title XI of the Merchant Marine Act, 1936, and $20 million for disposal of obsolete ships in the national defense reserve fleet. (The $39 million for the Title XI program is not shown in Table 4 because such costs are already authorized under the 1936 act and do not require annual authorization.)

TABLE 4. SPECIFIC AUTHORIZATIONS OF APPROPRIATIONS FOR THE MARITIME ADMINISTRATION IN H.R. 1588

	By Fiscal Year, in Millions of Dollars					
	2003	2004	2005	2006	2007	2008
Current Law Authorization for the Maritime Administration						
Authorization Levels [a,b]	201	100	100	0	0	0
Estimated Outlays	195	120	105	0	0	0
Proposed Changes						
Maritime Security Program						
Estimated Authorization Levels	0	0	0	156	156	161
Estimated Outlays	0	0	0	143	156	160
Tanker Construction						
Authorization Level	0	0	0	250	0	0
Estimated Outlays	0	0	0	63	63	63
Regular MARAD Authorization						
Authorization Level	0	124	0	0	0	0
Estimated Outlays	0	99	20	5	0	0
Subtotal, Proposed Changes [c]						
Estimated Authorization Levels	0	124	0	406	156	161
Estimated Outlays	0	99	20	211	219	223
Authorizations Under H.R. 1588 for the Maritime Administration						
Authorization Levels [a]	201	224	100	406	156	161
Estimated Outlays	195	219	125	211	219	223

a. The level for 2003 is the amount currently appropriated for programs authorized by the bill; that amount is also contained in Table 1.
b. The levels for 2004 and 2005 are authorizations of appropriations in current law for the Maritime Security Program.
c. These amounts are contained in Tables 1 and 2.

Direct Spending

The bill contains provisions that would increase direct spending, primarily by increasing the amount that DoD can spend to finance special authorities for the construction and renovation of military family housing. We estimate that the increase in direct spending (excluding asset sales) resulting from provisions of H.R. 1588 would total $440 million over the 2004-2008 period and $486 million over the 2004-2013 period (see Table 5).

TABLE 5. ESTIMATED DIRECT SPENDING FROM MILITARY HOUSING PRIVATIZATION AUTHORITIES AND OTHER PROVISIONS IN H.R. 1588

	By Fiscal Year, in Millions of Dollars					
	2003	2004	2005	2006	2007	2008
CHANGES IN DIRECT SPENDING (EXCLUDING ASSET SALES)						
Military Housing Privatization Initiative						
Estimated Budget Authority	0	120	290	0	0	0
Estimated Outlays	0	15	85	151	91	35
Recovery of Funds from Sale of Nonappropriated Fund Facilities						
Estimated Budget Authority	0	51	6	6	6	1
Estimated Outlays	0	8	14	18	12	9
Reduction in Time-in-Grade for Retirement						
Estimated Budget Authority	0	*	*	*	1	1
Estimated Outlays	0	*	*	*	1	1
Subtotal						
Estimated Budget Authority	0	171	296	6	7	2
Estimated Outlays	0	23	99	169	104	45
ASSET SALES[a]						
National Defense Stockpile	0	-15	-5	0	0	0
Estimated Budget Authority	0	-15	-5	0	0	0
Estimated Outlays						
TOTAL CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	0	156	291	6	7	2
Estimated Outlays	0	8	94	169	104	45

NOTE: * = less than $500,000.

a. Asset sale receipts are a credit against direct spending.

Military Housing Privatization Initiative (MHPI). Section 2803 would raise the statutory limit on the amount that DoD can invest in projects to build or renovate military family housing. DoD is authorized to use direct loans, loan guarantees, long-term outleases, rental guarantees, barter, direct government investment, and other financial arrangements to encourage private-sector participation in building military housing. Funding for those activities comes from the Family Housing Improvement Fund, which is financed by appropriations made to the fund, transfers from other accounts, receipts from property sales and rents, returns on any capital, and other income from operations or transactions connected with the program.

Currently the amounts in the fund are available for use by DoD to acquire housing using the various techniques mentioned above, but the total value of commitments for all contracts and investments undertaken is limited to $1 billion ($850 million for family housing and $150 million for unaccompanied housing). Under the bill, the limit for family housing would increase to $900 million. CBO estimates that enacting section 2803 would increase direct spending by $377 million over the 2004-2008 period and by $409 million over the 2004-2013 period.

Governmentwide Accounting Principles. Most of DoD's housing projects under the MHPI authority have involved private-sector financing that is backed by various kinds of government commitments. Some of these commitments may have the characteristics of a capital lease or lease-purchase, others may be public-private partnerships with substantial government control. According to standard principles of federal accounting, obligations of the Family Housing Improvement Fund should reflect the full amount of the financial liability incurred when the government makes such a commitment.[2] In the case of a capital lease, for example, obligations equal to the asset cost should be recorded up front and an amount equal to the interest costs should be recorded on an annual basis over the life of the lease term. Outlays should be recorded over the lease term in an amount equal to the annual lease payments. For commitments that take the form of a lease-purchase, obligations are recorded in the same manner as a capital lease, but outlays should be recorded over the period it takes to construct the asset. In CBO's view, most ventures that borrow private funds to construct or refurbish military family housing should be treated as governmental and their investments should be recorded up front, equivalent to borrowing authority—a form of budget authority. Amounts expended by these public-private arrangements should be recorded in the budget as outlays at the time they occur.

To date, the Office of Management and Budget (OMB) has primarily treated DoD's use of these authorities as transactions that have relatively little estimated cost in terms of the obligations and outlays recorded in the federal budget, allowing DoD to obligate the government for significantly more than it records in its budget. In effect, the Administration's accounting enables DoD to record the costs of the projects incrementally over time rather than up front. CBO continues to believe that OMB's accounting practices for MHPI projects are at odds with governmentwide standards.

Although the contractual terms vary from project to project, CBO considers most MHPI projects to be governmental undertakings, the purpose of which is to finance and manage the acquisition, construction, or renovation of a government asset, specifically, family

2. For a more in-depth discussion, see CBO's report, *The Budgetary Treatment of Leases and Public/Private Ventures,* February 2003.

housing for military personnel. There are several factors that support treating these arrangements as governmental. For instance, most of the housing constructed or renovated under this authority is on government property. Many deals include government guarantees against base closure. In some instances, rental payments are made to the property manager directly by the government. Likewise, in most deals, title to the property vests with the government at the end of the contract. In the case of public-private partnerships, the debt of the entity is implicitly or explicitly backed by the federal government. Following standard principles of federal accounting, CBO believes the MHPI program should reflect the full amount of the financial liability incurred at the time the government makes such commitments.

For the last few years, CBO has stated that DoD was obligating the government for significantly more than it was recording. After consultation with the Committees on the Budget in both the House and the Senate, CBO has decided to show the full cost of MHPI projects up front in our cost estimates for legislation related to such projects. Thus, expansion or extension of this authority is counted as direct spending in this estimate, since it would allow DoD to obligate the government without appropriations for the full amount of those obligations in advance.

Cost of Activities Under Current Law. To date, DoD has signed contracts for 18 family housing projects and is proceeding with solicitations for or considering plans for close to 60 other projects over the next few years. According to OMB's accounting method, DoD has only recorded obligations of about $300 million—well below the current $850 million limit. Given DoD's plans for future projects, it estimates that it could reach the $850 million limit as early as the end of 2004. However, CBO estimates that the full amount of DoD's commitments to date exceeds $2 billion. Using the current method of accounting for only the initial investment costs of these projects, DoD could acquire or modify approximately 60,000 more units and record only $550 million in obligations. CBO estimates that the true cost of these additional projects, which could be awarded under the current investment cap, would total approximately $4.5 billion dollars. Since DoD can pursue these projects without additional legislative authority, their costs are not counted against this bill.

Cost of Activities Under The Increased Limitation. Section 2803 would increase the limit on total investment in family housing projects by $50 million to $900 million, allowing DoD to pursue MHPI projects after it exhausts the authority in current law. Given OMB's accounting practice of recording only the initial investment, CBO assumes that DoD would be allowed to commit the government for much more than the additional $50 million provided. Since DoD could enter into these obligations without further appropriations for the full amount of the obligation, CBO estimates that the additional $50 million investment authority provided in this section would allow DoD to acquire or modify almost

5,500 additional housing units, obligating the government for an additional $410 million. Thus, CBO estimates that these obligations would increase outlays by $15 million in 2004 and by $410 million over the 2004-2013 period.

Recovery of Funds Due to Sale of Nonappropriated Fund Facilities. Section 655 would allow DoD to spend (without further appropriation) collections from the sale or lease of commissary or nonappropriated fund assets that have been closed under Base Realignment and Closure. The collections are currently deposited into a reserve account established by the Defense Base Closure and Realignment Act of 1988 and, under current law, cannot be spent without further appropriation. Based on information from the Department of Defense, CBO estimates that there will be $51 million in the reserve account at the beginning of fiscal year 2004, and that the reserve account will gain an additional $19 million in collections through 2008. Based on information from DoD, CBO expects that the funds in the account would be used primarily for facility improvements and construction. Using historical outlay patterns, CBO estimates that, under section 655, outlays from the fund would total $8 million in 2004 and $70 million over the 2004-2013 period.

Section 3005 of the National Defense Authorization Act for Fiscal Year 2002 (Public Law 107-107) authorized expenditures from the reserve account for base closures that are schedules to occur after 2005. Therefore, enacting this section would have no impact on collections from the sale of commissaries or nonappropriated fund facilities in future base closure rounds.

Reduction of Time-in-Grade for Retirement. Section 513 would reduce, from three years to one year, the length of time senior officers must serve in a grade before being allowed to retire in that grade. Based on information from DoD, CBO estimates that reducing the time-in-grade requirement would cause about 15 officers in the ranks O-7 to O-10 to retire one grade higher than they normally would otherwise. CBO estimates that enacting this measure would cost less than $500,000 in 2004, $2 million over the 2004-2008 period, and $7 million over the 2004-2013 period.

Land Conveyance and Other Property Transactions. Title XXVIII would authorize a variety of property transactions involving both large and small parcels of land. CBO estimates that implementing these provisions would not result in significant costs to the federal government because they would authorize DoD to receive fair market value for the property to be conveyed, to exchange one piece of property for another, or to convey land that under current law is unlikely to be declared excess and sold or is likely to be given away.

Other Provisions. The following provisions would have an insignificant budgetary impact on direct spending:

- Section 545 would instruct DoD to assist former prisoners of war in obtaining information to support their applications for the award of the Purple Heart. Purple Heart recipients are eligible to have their retirement annuities increased by any amount currently withheld to offset their receipt of veterans disability compensation, to the extent that disability pay is related to the injury for which they received the Purple Heart. Thus, if this measure increased the number of Purple Heart recipients, it could potentially increase retirement outlays. However, since this measure does not change the criteria for eligibility for the Purple Heart award, CBO assumes that at most a few additional Purple Hearts would be awarded if it were to be enacted, and that any additional retirement outlays would be negligible.

- Section 651 would eliminate restrictions on commissary use by members of the ready reserve, retirees of the ready reserve who are less than 60 years of age, and their dependents. CBO estimates enactment of this provision would increase commissary sales, which are deposited into the commissary revolving fund and used to replenish commissary stock. Commissaries also charge a 5 percent surcharge on all sales which is credited to the commissary surcharge account. Funds in the commissary surcharge account are used to renovate and construct commissary facilities and can be collected and spent without appropriation. CBO estimates the net result of the collection and expenditure of these proceeds would be insignificant.

- Sections 801 and 1451 would extend and expand authority for government agencies to provide services to nongovernmental organizations and enter into nonconventional cooperative agreements with private contractors for research into advanced weapons systems and homeland security. These agreements would include the authority for the government agencies to collect and spend reimbursements for any services rendered. While outlays would lag behind receipts, CBO does not have enough information to estimate the net outlay effects in any specific year.

- Section 903 would allow the Secretary of Defense to carry out a three-year pilot program to determine the feasibility of providing satellite tracking services with DoD assets to non-U.S. government entities. Under such a pilot program, DoD would be allowed to charge fees for these services and spend these payments. According to the Air Force, the proceeds from selling these services would likely be insignificant. CBO estimates that implementing this provision would have no net effect on direct spending because it would allow DoD to spend any payments that it collects.

- Section 906 would allow the Asia-Pacific Center for Security Studies to accept and spend gifts from U.S. sources, similar to the authority they have to accept gifts from foreign sources. Based on information from DoD, CBO estimates any gifts received under this section would be less than $500,000 annually. (Gifts and donations are recorded in the budget as revenues.)

- Section 1012 would allow the Navy to spend the proceeds received from selling the materials and equipment stripped from naval vessels that are to be used for experimental purposes. Under current law, the Navy may only recover their costs from such activities and any receipts in excess of those costs are required to be deposited into the general fund of the Treasury. The Navy has not deposited any excess funds into the general fund from these activities in recent years. Section 1012 also would allow the Navy to use contractors to sell this material and equipment. Based on information from the Navy, CBO estimates that receipts from the expanded authority would likely total less than $500,000 a year. Enacting this provision would have no net effect on direct spending, however, because it would allow the Navy to spend any payments it collects.

- Section 1046 would allow the National Security Agency (NSA) to contract for living quarters for co-op students, and would allow the NSA to charge the students for this service and credit the proceeds to appropriated accounts. CBO estimates the net result of the collection and expenditure of these proceeds would be insignificant.

Asset Sales

Section 3302 would increase by $20 million the targets contained in the National Defense Authorization Act for Fiscal Year 2000 (Public Law 106-65) for sales from the National Defense Stockpile through 2009. CBO estimates that there will be sufficient quantities of materials in the stockpile to achieve $15 million in receipts in 2004 and the remaining $5 million in receipts in 2005.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

Title XI would authorize the Secretary to appoint older Americans into positions in the excepted service, and—notwithstanding any other provision of law—protect any other retirement benefits they may be receiving from being reduced as a result of that appointment. To the extent that under current law retirement benefits provided by state, local, or tribal governments might be reduced for a beneficiary hired by the Secretary, enacting this provision would prohibit such reductions and thereby impose an intergovernmental mandate as defined in UMRA. However, according to the National Association of State Retirement Administrators, few if any jurisdictions require such benefit reductions under current law. Therefore, CBO estimates that any costs to state, local, or tribal governments from the mandate would be insignificant and would not exceed the threshold established in UMRA ($59 million in 2003, adjusted for inflation).

Other provisions in H.R. 1588 contain no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

PREVIOUS CBO ESTIMATES

On May 12, 2003, CBO transmitted a cost estimate for H.R. 1497, the Sikes Act Reauthorization Act of 2003, as ordered reported by the House Committee on Resources on May 7, 2003. Both H.R. 1497 and section 311 of H.R. 1588 would authorize the appropriation of up to $4.5 million a year over the 2004-2008 period for DoD and the U.S. Fish and Wildlife Service to develop and implement plans to manage natural resources on certain military lands.

On May 14, 2003, CBO transmitted a cost estimate for H.R. 1837, the Services Acquisition Reform Act of 2003, as ordered reported by the House Committee on Government Reform on May 8, 2003. Both bills would authorize the establishment of an Acquisition Workforce Training Fund; would establish a new advisory panel to review procurement policies, a Chief Acquisition Officers Council, and a center of excellence in the Office of Federal Procurement Policy; would require GSA, the Office of Personnel Management, and the Office of Management and Budget to issue implementing regulations; and would require the General Accounting Office to prepare certain studies on procurement issues. The difference in the other estimated costs reflect differences in the legislation.

On May 15, 2003, CBO transmitted a cost estimate for H.R. 1836, the Civil Service and National Security Personnel Improvement Act of 2003, as ordered reported by the House Committee on Government Reform on May 8, 2003. Sections 1111, 1101, 1104, 1107, and 1108 of H.R. 1588 are identical to sections 102, 201, 204, 209, and 211 of H.R. 1836, as are the cost estimates.

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